

(CLASSIFICATION)

OFFICE OF THE DIRECTOR

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Action Memorandum No. _____

Date **8 JUN 1965** **A-436**

TO : Deputy Director for Intelligence
Deputy Director for Plans
Deputy Director for Science & Technology
Deputy Director for Support
Inspector General
General Counsel

SUBJECT : Cost Reduction and Management Improvement in

REFERENCE: Government Operations

Action Memoranda A-319 and A-1.1, same subject

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1. The President continues to bear down on cost reductions and improvements in the general effectiveness of Government operations. Agency efforts to improve efficiency and effect economies over the past year and a half have been commendable. Although our reports to the Bureau of the Budget on cost-savings actions have been general in nature and no specific manpower or dollar savings have been identified, a spirit of cost consciousness has been instilled among employees and we have been responsive to the President's program.

2. To further strengthen the President's economy program and provide more precise reporting on economy measures, the BOB has issued Circular No. A-44, Revised, effective 31 July 1965, which is attached. Compliance with this circular requires the Agency to put into effect a formal, organized cost reduction program, the preparation of cost reduction plans and reports, and an identification of the use of savings. In order to give more supervision and greater emphasis to economy programs and comply with BOB directives, it is requested that each Deputy Director assume direct responsibility for the preparation of a cost reduction plan with specific savings goals for Fiscal Years 1966 and 1967. The guidelines in Attachment A to the BOB Circular shall be followed. These plans shall be forwarded to the Director, Budget, Program Analysis and Manpower by 1 August 1965

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SUSPENSE DATE:

1 August 1965

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for consolidation and forwarding to the Bureau by 1 September 1965. Thereafter, semi-annual progress reports, in the prescribed format, shall be forwarded to D/BPAM by 1 February and 1 August respectively.

3. Although the revised BOB Circular is not effective until 31 July, a report of cost-savings actions as prescribed in the current circular needs to be made to the Bureau for Fiscal Year 1965. It is requested that you report to D/BPAM in accordance with referenced memoranda by 12 July 1965 the economies you have effected for the period 1 January to 30 June and the use made of such savings. This information is to be consolidated and forwarded to the Bureau by 20 July.

(Signed) Lyman B. Kirkpatrick

Lyman B. Kirkpatrick
Executive Director-Comptroller

Attachment

BOB Circular A-44, Revised

OBPAM/JMClarke:vgd 28 May 65

Distribution:

- 1 - each addressee
- 1 - ExDir
- ① - ER
- 1 - D/BPAM
- 2 = w/held

March 29, 1965

CIRCULAR NO. A-44
Revised

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Cost reduction and management improvement in Government operations

1. Purpose and coverage. This Circular sets forth policies, procedures and responsibilities for carrying out the President's program to reduce the cost and improve the general effectiveness of Government operations. It applies to all departments and agencies of the executive branch effective July 31, 1965. On that date this Circular replaces Circular No. A-44 of October 31, 1962, as revised.

2. Policy. The President has directed that each department and agency head put into effect and assume direct supervision of a formal, organized cost reduction program. The President is interested in savings for three principal reasons:

- . To reduce the cost of Government;
- . To finance new and needed programs; and
- . To offset increased costs for personnel and other resources.

The following policies will be observed in agency cost reduction activities:

a. The head of each department and agency is as responsible for efficiency and economy in the conduct of agency programs as he is for program results.

b. Management at all levels in each agency is expected to undertake vigorous and continued efforts to reduce costs by eliminating nonessential activities and positions and by increasing productivity.

c. The heads of departments and agencies and their subordinates will make every effort to meet new workload requirements through adjustments in existing activities and procedures, and by improved manpower control and utilization.

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d. Government business will be conducted in accordance with the same exacting standards that apply to the most expertly managed private business.

e. Improved organization, more efficient methods and procedures, use of labor-saving equipment, strengthened supervision, wise and economical procurement, and other actions to reduce the cost of current programs will be constantly sought so that available resources can be most effectively utilized in meeting the Nation's urgent needs.

3. Cost reduction plans and reports. Each department and agency head will prepare an annual cost reduction plan with specific savings goals. In preparing his plan he will make a systematic review of agency programs from the standpoint of relative priorities and subject major proposed expenditures to searching scrutiny in terms of cost and benefits. Specific efforts should be planned to eliminate or curtail low priority activities, seek new and less costly approaches to achievement of program objectives, and devise better solutions to management problems. Positive steps should be taken to encourage innovation in the development and use of new techniques for increasing productivity.

a. Goals. At the beginning of each fiscal year each department and agency head will establish cost reduction goals for at least the year just beginning and the following fiscal year. The goals will be quantified to the extent possible and based on reasonable projections of concrete actions contemplated and savings expected, but desirable improvements or benefits which cannot be quantified in terms of dollar savings may be included.

b. Reporting of goals. The head of each department and agency will submit to the President, through the Director of the Bureau of the Budget, by September 1 of each year, a report on the cost reduction goals he has established for the current fiscal year and at least one following year. The report will be submitted in triplicate and provide, in accordance with the attached guidelines and format (Attachments A and B), a brief description of the actions contemplated, when they are to be completed, and appropriate annual man-year and dollar savings targets. If legislative action is required to achieve these goals, this should be noted and a legislative proposal should be submitted, in accordance with Bureau of the Budget Circular A-19, revised.

c. Reporting of progress. Each department and agency will send to the President, through the Director of the Bureau of the Budget, semi-annual progress reports showing the extent to which cost reduction goals are being reached. The reports covering the first half of the fiscal year and the entire fiscal year will be due on March 1 and

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September 1, respectively. They will be submitted in triplicate in accordance with the attached guidelines and format (Attachments A and B). Cost reduction goals and improvement actions may be updated in the March 1 progress report. Savings resulting from actions taken in the first half and in the entire fiscal year, respectively, will be estimated for both the fiscal year reported on and the next fiscal year. Savings will be in terms of dollars and man-years, as appropriate. The report will also show the nature of savings or benefits and the proposed disposition of savings.

d. Definition of savings and other benefits.

(1) Savings. Savings generated and reported under this program will be only those which result from new, improved, or intensified management practices and actions or from the elimination or curtailment of low priority activities during the fiscal year reported on. They are not to include reductions due to deferment of programs or activities to some future date. Savings are to be measurable and identifiable. They will be calculated using as a base the level of expenditures or unit costs of the fiscal year immediately preceding the current year, except where another base year has been approved by the Director of the Bureau of the Budget. As a general rule, savings should result in one or more of the following:

- Reduced level of expenditures for a defined workload or program
- Increased production or more effective program performance at no added cost
- Reduced requirements for additional funds

(2) Other benefits. Noteworthy management improvement actions that do not result in measurable monetary savings should be reported as "other benefits." Such benefits might be more prompt service, more effective program results, or more equitable treatment of clientele.

4. Use of savings. Since savings may constitute an additional resource for other worthwhile work, recommended and actual use of savings will be specified and reported by agencies. Recurring savings and those projected for the budget year will be considered during the budget review process. Recommended high-priority uses of savings will be categorized as follows:

- a. Use to finance increased costs, such as statutory pay increases.
- b. Apply to the production of more units of work.

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- c. Apply to raise the quality of service or performance.
- d. Use to finance some other approved program or activity of the reporting agency.
- e. Place in reserve, or apply to reducing the President's budget.

The need for application of savings to categories (a) through (d), above, will be fully explained in the report.

5. Validation of savings. Savings will be measured using the techniques appropriate to the particular circumstances. Care will be taken to prevent double counting and to consider offsetting costs. All offsetting costs applicable to an individual savings action, whether incurred within or outside the reporting agency, will be deducted before net savings are reported. Savings should be validated by a review performed independently from the claiming unit. Such validations will be performed before data and reports are submitted to the Bureau of the Budget and the President. The term "validation" means an independent evaluation of the reasonableness of amounts reported as accomplishment against goals through selective examination of reports, records, and operations.

6. Central assistance for improving management.

a. The staff of the Bureau of the Budget is available to advise agencies in their management improvement and cost reduction programs and to serve as a clearinghouse for exchanging information on techniques and programs, from within and outside of the Government, that have produced noteworthy results. To meet unusual problems where the agency does not have the expertise or the financial resources to undertake special management studies, assistance may be provided from the appropriation to the President for Expenses of Management Improvement.

b. Federal Executive Boards in major centers of Federal activity outside of the Washington area will give specific attention to the exchange of information and cooperative efforts designed to improve management and performance of Federal activities in the field.

c. The Bureau of the Budget, the Civil Service Commission, and the departments and agencies have undertaken a systematic program of agency management and manpower reviews. The schedule for these reviews is developed by the Bureau of the Budget and the reviews are carried out jointly by staff of the Bureau, the Commission, and the agency concerned. The reviews are made on a selective basis giving priority

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attention to areas where the most significant problems and potential savings exist. The results of these reviews are reported to the head of each agency for immediate attention and such action as is necessary.

KERMIT GORDON
Director

Attachment

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GUIDELINES FOR REPORTING COST REDUCTION GOALS AND ACCOMPLISHMENTS
(See paragraphs 3 and 4, Bureau of the Budget Circular A-44)

I. Categories for Goals and Semi-annual Progress Reporting

Cost reduction goals and accomplishments will be reported by the head of each department and agency under the following categories. Additional categories may be used if desirable, and some of those listed here may be excluded if they do not fit.

- A. Increased productivity and efficiency. Annual productivity goals and progress in achieving them may be reported for the organization as a whole or for major organizational components. They may be expressed in percentage increases in productivity or decreases in unit costs. All improvement in productivity or efficiency should be translated into specific dollar and manpower savings. Depending on the size of the agency, they may be presented in aggregate or in terms of specific projects.
- B. Elimination of low priority activities; substitution of less costly alternatives. This may include savings resulting from such actions as the elimination of unessential programs or activities or reduction of specific program levels (excluding reductions imposed externally by the President's budget or appropriation actions) and the selection of an alternative program or course of action from that originally approved or in use.
- C. Increased management and program effectiveness. The intended and actual results or benefits of management improvement actions during the current year for which specific and demonstrable savings are impossible to calculate will be reported under this category.

II. Annual Goals

The statement of cost reduction goals, set by each department and agency and submitted to the President through the Director of the Bureau of the Budget by September 1 of each year, will contain these elements stated as briefly as possible:

A. Narrative description

1. Goal. Describe each separate goal, listed by category as defined in Section I above, including estimated dollar and man-year savings or other benefits.

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2. Project. Under each goal, list and provide a brief description of the program, projects or actions designed to reach the goal, together with a timetable of implementation. These will be reported in terms of general programs, major projects or specific actions, as appropriate to the size of the reporting department or agency.
 3. Nature of savings or benefits. For each program, project or action, describe the type of saving or benefit; indicate when it is to be achieved, and indicate whether it is one-time or recurring.
 4. Disposition of savings. Explain the proposed use of savings in accordance with the criteria included in paragraph 4 of Circular No. A-44.
 5. Problem areas. Note and explain any roadblocks in planning or accomplishing the goal which require the assistance of the Bureau of the Budget, the President, other agencies, and/or require new or revised legislation.
 6. Innovation. Identify and describe steps to encourage innovation, including specific actions, planned or underway, to develop and use new management techniques. Where appropriate include evaluation of results.
- B. Summary form. Recapitulate in the first five columns of the summary form (Attachment B) the essential information provided in the narrative. The summary form will also be used for subsequent semi-annual reporting of progress.

III. Semi-annual Progress Report

- A. Narrative report. The semi-annual narrative progress reports will contain:
1. Any changes in the narrative description provided at the time the cost reduction plans were submitted.
 2. Changes in goals, but these should not ordinarily be reduced unless the original plan was greatly overestimated. Any slippages in goals should be indicated, together with the reasons.
 3. A description of major actions taken during the preceding six months on each program, project or action listed in the plan.

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4. An explanation of the use proposed for any savings.

B. Summary form. The summary form (Attachment B) will contain:

1. Recapitulation of the programs, projects or actions by which goals are to be reached, as specified in the annual plan and in the narrative section of the report.
2. Estimate of savings in dollars and man-years, or other benefits to result from action on each goal or project.
3. Proposed disposition of anticipated savings using the key provided on the form (Attachment B), that is --
 - a. Use to finance increased costs, such as statutory pay increases.
 - b. Apply to production of more units of work.
 - c. Apply to raise quality of service or performance.
 - d. Use to finance some other program or activity of the reporting agency.
 - e. Place in reserve, or apply to reducing the President's budget.

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